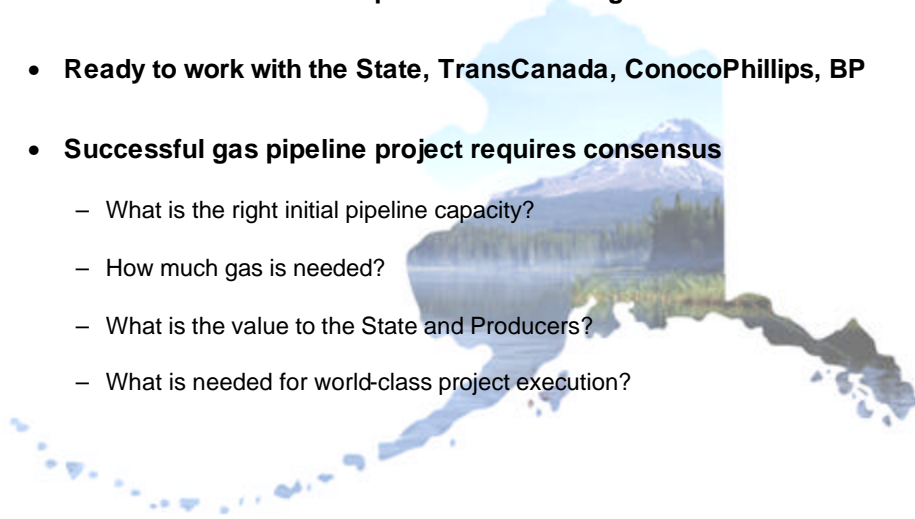


Slide 1 – ExxonMobil Committed and Ready to Work

ExxonMobil Committed and Ready to Work

- **Committed to the development of Alaska’s gas resources**
- **Ready to work with the State, TransCanada, ConocoPhillips, BP**
- **Successful gas pipeline project requires consensus**
 - What is the right initial pipeline capacity?
 - How much gas is needed?
 - What is the value to the State and Producers?
 - What is needed for world-class project execution?



ExxonMobil 1

- Good afternoon. My name is Marty Massey. I am the U.S. Joint Interest Manager for ExxonMobil, a position I've held since November 2001, and I am responsible for ExxonMobil's development of gas resources in Alaska.
- First, I want to thank you for the opportunity to speak with you today and address questions that I am sure you have.
- I recognize you are going through a very thorough process to decide how best to deliver a pipeline for the State. I know that you have a tough decision to make.
- We have taken an active interest in your deliberations and it is clear your focus is on doing what is in the best interest of Alaska.
- I also know you have questions about whether or not we are really on board to make this project happen. I hear questions like, "Where is ExxonMobil?" and "Do they really want to advance a project?" Today, my intention is to demonstrate that we are

committed to the timely development of Alaska's gas resources and we want to be part of the solution.

- I understand you are frustrated that more progress has not been made, but you also recognize how important this project is to the future of the State – we recognize that as well.
- I want to offer to you that we are ready to work with the Administration, TransCanada, ConocoPhillips and BP to advance this project.
- We were invited to testify and share our observations from review of the State's consultant's work on the TransCanada application. In particular, I plan to cover what we believe will be necessary to make this pipeline project a success by addressing four key questions:
 - "What is the right initial pipeline capacity?"
 - "How much gas is needed?"
 - "What is the value to the State and the Producers?" and
 - "What is needed to ensure world-class project execution?"
- Before getting into the details, I would like to introduce four folks with me today that are part of our Alaska Gas team. With your permission, I may call on them to help me with a question or two.

Jim Brown – works in our Worldwide Gas Marketing Company; Jim just wants to sell Alaska gas

Mark Nelson – works in our Commercial group; Mark has been working Alaska for nearly 15 years, and many of you know him.

Norman Kreutter – one of our senior Treasurer's; Norman has completed numerous financings and ensures we properly value this project.

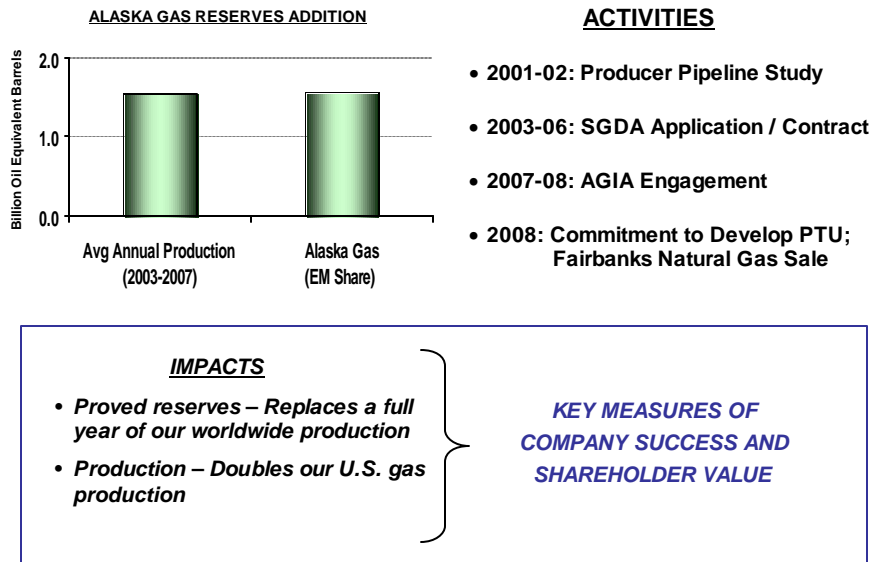
Jim Morse – is our commercial attorney; I know we all have to have one; Jim has completed many deals around the world leading to successful projects.

We will be here over the next few days and will make ourselves available to address any topic you would like to discuss.

- Let's begin by looking at why this project is so important to us.

Slide 2 – Motivated to Develop Alaska Gas

Motivated to Develop Alaska Gas



ExxonMobil 2

ExxonMobil has been in Alaska for over 50 years and has been a key player in Alaska's oil industry development. We hold the largest working interest at Prudhoe Bay (36.4%) and are the largest lease holder of discovered North Slope Gas.

ExxonMobil is in the business of developing oil and gas resources. That is what we do and we have proven throughout the world that we can do it well.

Development of Alaska's gas resources is extremely important to our company. Let me describe why.

If I could draw your attention to the bar chart, an Alaska gas pipeline project would allow us to add over one and a half billion oil equivalent barrels of proved reserves, which is more than our production has averaged over the past 5 years.

In addition, this project has the potential to double our current U.S. gas production. Reserves and production are key measures of any oil company's success and shareholder value.

With our size, only the very large projects can impact our performance in any significant way. The Alaska gas pipeline project would have a clear, positive impact on our worldwide results, and would be seen as a significant enhancement to our performance.

We've been working hard to develop that gas ever since Prudhoe Bay was discovered. We've now invested more than \$180 million looking for a way to bring Alaska gas to market including early pipeline studies and the LNG and gas-to-liquid technology studies.

I'll tell you our activities have picked up significantly in this decade as natural gas prices started to climb. For example, prior to 2000 gas prices were in the range of \$2/MMBTU. During 2001/2002, a \$125 million gas pipeline study was performed by ExxonMobil, ConocoPhillips and BP. Following the study, we submitted a Stranded Gas Development Act application which led to the Stranded Gas contract.

Since the development of the Alaska Gas Inducement Act, we've provided testimony and engaged in the public comment process. The good news is that we are aligned with the Administration's recent determination that a gas pipeline project to North American markets will result in the best value for the State and the Producers.

Earlier this year, we made a commitment to put Point Thomson Unit on production, which will provide valuable information to remove any doubt on how best to produce the hydrocarbons at Point Thomson, including the major gas resource.

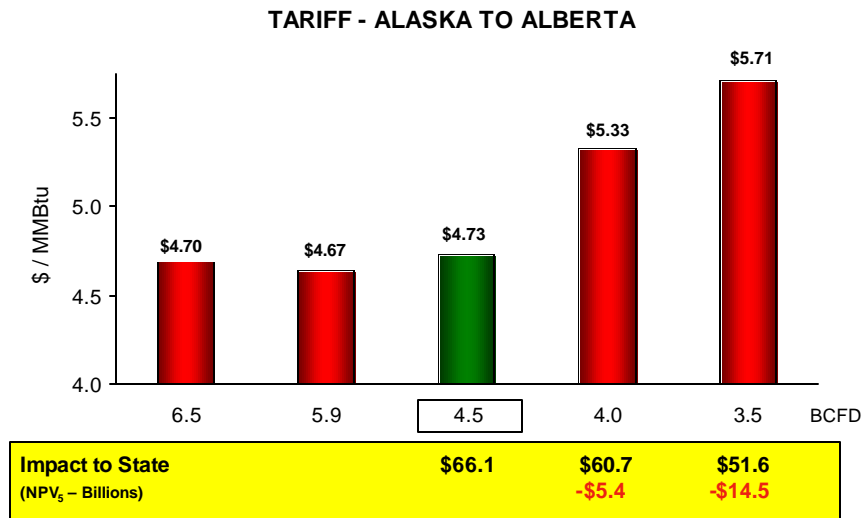
We are pursuing a large-scale gas pipeline project and continue to pursue smaller volume opportunities when there is a market. For example, I recently had the opportunity to participate in the sale of Prudhoe Bay gas to Fairbanks Natural Gas to

address the energy needs of consumers living in Interior Alaska. If I'm not mistaken, this is the first sale of gas off the North Slope and we're pleased to be a part of it.

We are working very hard to determine the best way to move an Alaska gas pipeline forward. We believe a successful project requires the support of all three major producers and the State of Alaska. We are ready to work with the State, TransCanada, ConocoPhillips and BP to put in place the "necessary ingredients" for a successful gas pipeline project.

Slide 3 – 4.5 BCFD Balances Tariff, Revenue and Resources

4.5 BCFD Balances Tariff, Revenue and Resources



Source: Black and Veatch



The Producers' joint effort in 2001 and 2002 determined that a pipeline of around 4.5 BCFD would provide the best chance of achieving a viable project. This determination resulted from a detailed technical evaluation of pipeline hydraulics and cost.

The State's data is consistent with this analysis.

Looking at the chart on the slide, which is based on data provided to the public by the Administration and their consultants (Chapter 3, page 3-57 and Appendix G1, pages 191, 199), we can see that when the pipeline throughput is 4.5 BCFD, the tariff is

\$4.73/MMBTU, as shown in the green bar. When the capacity is reduced to 3.5 BCFD, the transportation tariff shoots up from \$4.73 to \$5.71, which is about a 20% increase.

If the pipeline is expanded to 5.9 BCFD from 4.5 BCFD, the tariff is reduced to \$4.67. At 6.5 BCFD, you can see the tariff starts to increase. This cost and hydraulic analysis clearly shows “the sweet spot” for this pipeline is 4.5 BCFD, given the amount of gas available to support a pipeline of that size.

I will address volume of gas available to support the pipeline on my next slide, but before I do that, let’s look a little deeper at the impact of these various pipeline sizes.

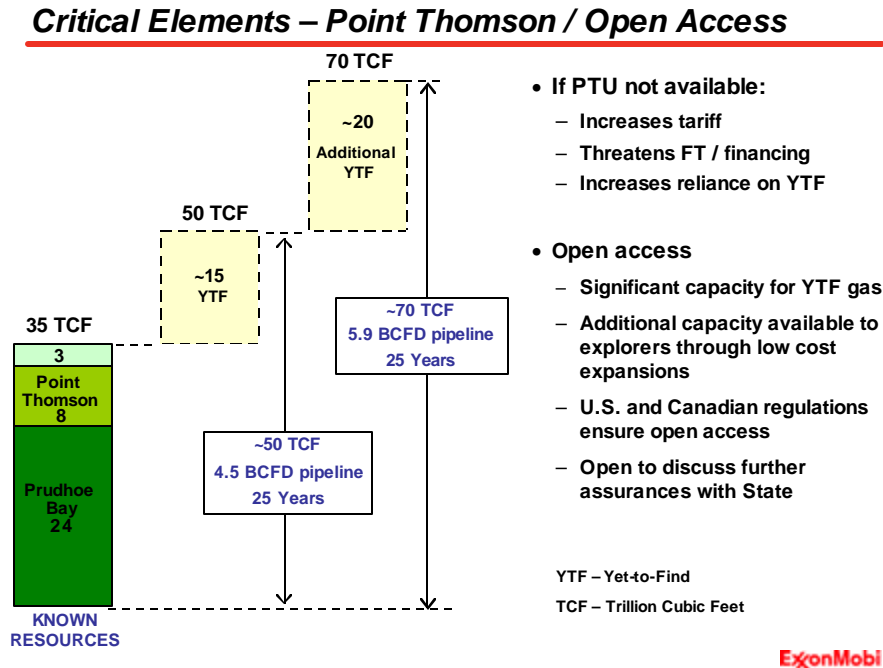
As the slide shows (based on the public information provided by the Administration and their consultants), when you compare the less efficient 3.5 BCFD case to the optimum 4.5 BCFD case, you can see that with the smaller pipeline throughput, the tariff is about \$1.00/MMBtu higher. This change results in a significant \$14.5 billion reduction in the State NPV₅. Even a reduction of 0.5 BCFD to 4.0 BCFD would cost the State over \$5 billion (NPV₅). Producer profits would also see a similar percentage reduction. That is a huge impact to the State and Producers. So flowing gas at 4.5 BCFD is the right way to go with this project.

We are fortunate the hydraulics and cost analysis show that the pipeline should provide low cost expansions. For example, expanding from 4.5 BCFD to 5.9 BCFD or possibly even to 6.5 BCFD, could result in essentially the same tariff. Based on the State’s consultant’s analysis, significant low cost expansion is expected to be available. That is great news for the State and our company, because there will be significant incentive for exploration. I’ll expand on this point later.

The initial pipeline capacity will be determined at the open season, but, all of the available information today suggests the proper balance of tariff, revenue and utilization of gas resources is a 4.5 BCFD pipeline.

Let's now look at some critical elements for achieving a successful project: the importance of Point Thomson gas to support the optimum pipeline capacity and the importance of open access.

Slide 4: Critical Elements – Point Thomson / Open Access



On this slide, the green bar on the left shows the State's known gas resource: Prudhoe Bay at 24 trillion cubic feet (or TCF), Point Thomson at 8 TCF, and then 3 TCF from other fields, which brings us to a total of 35 TCF. We've also shown the additional gas needed to keep the pipeline full for a 25 year period, which is a reasonable assumption for the firm transportation period likely to be requested.

In the 4.5 BCFD case, a total of approximately 50 TCF is needed, which would require that another 15 TCF of yet-to-find gas be discovered and developed, shown as the yellow bar in the middle of the screen. This illustrates how critical Point Thomson gas is to the project.

It is estimated that Point Thomson could provide daily gas production of approximately 1 BCF per day. So without this gas, the tariff will be too high; and, without this gas, the

critical firm transportation commitments (or “FT”) may not be adequate to support the project. The financial markets will require sufficient long term transportation commitments and the ability for the pipeline owner to finance the project is threatened without Point Thomson.

Point Thomson gas also provides security for downstream consumers of Alaska gas by ensuring supply in the event of a temporary shutdown in the Prudhoe Bay Field. This gas also helps if exploration or “yet-to-find” gas does not materialize or is not adequate to meet gas marketing commitments.

The bottom line is that without Point Thomson, you would be counting on 23 TCF of yet-to-find gas which is essentially another Prudhoe Bay. On my prior slide, I showed that the State and Producers would forego significant profits at lower throughput rates, which makes it absolutely critical we land on the right approach at Point Thomson.

Through the extensive technical work we’ve performed to date, we’ve determined that a Point Thomson Unit (PTU) gas sales development will produce and recover the majority of the condensate from the gas reservoir. However, we also recognize a gas pipeline project is still many years away and there is still some uncertainty about the best way to produce Point Thomson.

For this reason, ExxonMobil and the 26 other lease holders developed the current proposed Plan of Development, which consists of a gas cycling project estimated to cost over \$1.3 billion. The project will bring Point Thomson into production by year end 2014. More importantly, this project will give us the information that is needed to remove any doubt about how best to produce Point Thomson. In addition, we will perform the engineering necessary for individual Point Thomson lease holders to participate in a gas pipeline open season. There is no faster way to bring the Point Thomson into production; there is no faster way to ensure that the Point Thomson gas will be available for a gas pipeline – gas which is absolutely critical to the success of the pipeline project.

Turning back to yet-to-find gas, the 15 TCF required in the base case represents about 30% of the gas required to fill the 4.5 BCFD pipeline over a 25 year period. While that is a lot of gas, with both Prudhoe Bay and Point Thomson available, we are able to keep the pipeline full for well over 10 years – which allows time to find and develop additional gas.

The previous slide also showed that it may be possible to get an even lower tariff if we build the pipeline to carry 5.9 BCFD. While shipping gas at 5.9 BCFD would certainly generate more revenue early on, to do so would place too much reliance on future yet-to-find gas. That is just too risky for anyone. We believe the better solution is to expand the pipeline with low cost expansions as yet-to-find gas is discovered and developed.

Given the need for 15 TCF of yet-to-find gas in the base case and room for an additional 20 TCF of yet-to-find gas that can be shipped through low cost expansions, there will be significant incentive for exploration to occur once a pipeline project is advancing. We are already starting to see increased leasing activity in offshore Alaska, largely driven by today's prices. Although we should expect significant future gas exploration and development activity, this will take time and it is unlikely expansion shippers will commit to firm transportation in the initial open season for gas they don't have. That is why open access is so critical.

We recognize open access has long been on the minds of Alaskans and those in the industry. It is an important concern for us as well. However, we do believe the necessary assurances are in place. Let me describe how we come to this conclusion.

Some people have expressed concern that if the Producers own the business entity that builds and operates the gas pipeline, then those Producers would try to "shut out" any new explorers who find gas and want to ship it through the pipeline. There are several reasons why this would not occur.

First, as I discussed earlier, exploration or yet-to-find gas is needed for the success of the base project. Substantial expansion capacity at low cost should be available, so there are good reasons to bring on this new gas. Major hurdles to access do not exist.

Second, the regulatory framework of FERC and NEB is based on the concept of open access. FERC rules expressly provide open, competitive access to gas pipeline capacity for prospective gas shippers. Canada's National Energy Board Act has similar objectives.

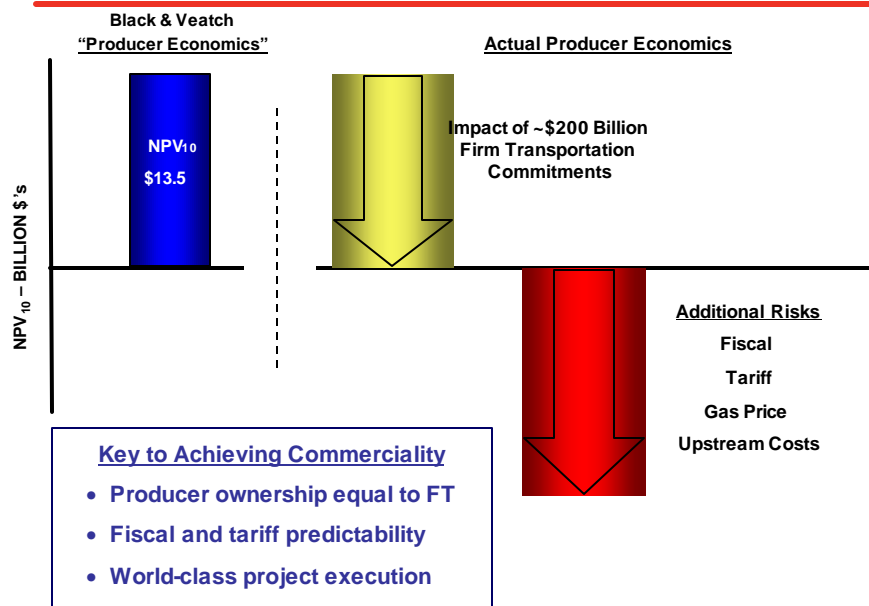
Further, the U.S. federal government recognized that an Alaska gas pipeline would be a very unique undertaking, so additional rules were established by Congress and FERC, which apply specifically to Alaska gas. These rules provide extra certainty that ANS explorers can obtain shipping capacity via expansions. For example, FERC could even order an expansion if there happens to be a disagreement about the need for an expansion.

I think the FERC's own words say it best. When he addressed this legislature in Anchorage on June 16, Jeff Wright, FERC's Deputy Director - Office of Energy Projects, stated: "the law says this is going to be an open access pipeline".

Finally, although we believe ample assurances of open access exist, we are willing to discuss other assurances that could be provided to make the State comfortable successful explorers will have access for their newly discovered gas.

Slide 5: FT Commitments – Real Risk and Cost to Producers

FT Commitments – Real Risk and Cost to Producers



ExxonMobi 5

Now, let's turn to the economic picture.

To evaluate TransCanada's license application, the State's consultant Black and Veatch produced what they have termed "Producer Economics for a 3rd Party Pipeline Case". This is shown as the blue bar on the slide. In their words, Black and Veatch made a 'simplifying assumption' by treating the firm transportation commitment costs as an operating expense which they said 'does not materially change the relative attractiveness of the project from the producer's perspective' (Appendix G-1, Section 3.8.1, page 36). Anytime someone tells me they made a simplifying assumption, I pay close attention. Unfortunately, this assumption has an enormous impact on the producer economics.

Black and Veatch's simplifying assumption ignores the reality that firm transportation commitments represent real risk and are valued differently from an operating expense by the financial markets. Since an uncommitted operating expense cannot be used to support the proposed project financing like a 25-year ship-or-pay firm transportation commitment can, clearly something of value is being transferred from the shippers to the pipeline developer and lenders.

We, like many economists and finance practitioners, believe that firm transportation commitments are long-term and debt-like in nature. These financial commitments should be capitalized and treated as a lump sum cash outflow in the year the commitments are made. Handling the FT commitments in this manner significantly reduces Black and Veatch's estimate of the producer's benefit. In fact, as you can see by the yellow arrow, it drops Black and Veatch's producer economics from \$13.5 billion NPV₁₀ to essentially zero. Allow me to explain this in a different way. For this project, as a gas shipper on the pipeline, we have two choices going forward.

- One option is that we can choose to invest in the project utilizing a pipeline affiliate. Under this approach we would invest our share of the capital upfront.
- The other option available to us is to make a long-term financial commitment to the pipeline developer to reimburse them for the actual cost (not their estimated cost) of the pipeline, plus a return on their investment. In this case our shipper affiliate, through the firm transportation commitments, is paying for the ultimate cost of the pipeline, plus the profit the pipeline builder requires and incremental financing costs. Because these are long-term, binding commitments to "pay for the project" regardless of whether the gas flows, we treat these commitments as if we were investing based on the value of those firm commitments.

When you think about it this way, the economics have to be worse for us to make a commitment to a third-party pipeline developer like TCPL because we are paying for actual costs plus their profits, and potentially higher financing costs. This is conceptually no different than a new car buyer looking at the true cost of leasing a car rather than purchasing it outright.

I think it is important for you to know how we run our economics and value these firm transportation commitments. And I know you have become very familiar with the need for firm transportation commitments to support financing for this project. By only making

this one change to Black and Veatch's analysis, the producer economics NPV₁₀ drops to zero.

In addition as shown by the red arrow, it is appropriate to recognize the additional risk that fiscal terms might change in the future; the risk that tariffs could increase; as well as exposure to higher costs and lower natural gas prices.

I realize some of these are difficult to predict, but it would only be prudent to recognize these exposures which could move the Black and Veatch NPV₁₀ for producers to well below zero.

We would welcome the opportunity to share our analysis with the Administration and their consultants. As you can see, we are in a much different place on how to value a third-party pipeline project.

So does this mean the project is unattractive under any scenario or that we won't bear any risk? No, we are quite willing to bear price risk. If we are an owner in the project, we will also bear our share of the capital risk. This is what we are in the business of doing.

However, from our perspective, the other risks I've outlined need to be mitigated. The keys to developing a commercial project are ownership in the pipeline equal to throughput. With this approach, any pipeline profits from transporting our gas will come to us. We can also work to achieve the lowest financing costs and participate in the project to ensure it is completed at the lowest possible capital cost.

At some point we will need to align with the State on fiscal and tariff predictability.

Lastly, world class project execution is a must to minimize the total cost of the project.

I think we are all coming to realize this project is not simply "another pipeline project". Goldman Sachs agree, as per Appendix H, page 2 – "It is important to note that this project is unprecedented in terms of scope, costs and financing requirements...". It is a


massive mega-project and faces extreme risks due to its scale and complexity. The project would be the largest private investment in North America. The gas treating plant, which is an integral part of the project, will be the largest of its kind in the world. There is not another project that compares to this one. For this reason, world-class project execution is essential.

Let me put this in perspective. A 20% overrun would reduce the State NPV₅ by more than \$5 billion. So, the State and the Producers are aligned on achieving the lowest possible cost because our value comes from the netback on the gas...which is simply the gas sales price minus the transportation costs.

On a project of this magnitude and complexity, project construction and operating experience should be a significant consideration. This project will require combining the resources, skills, expertise and financial strength of all parties to be successful.

Slide 6: Key Take-Aways

Key Take-Aways

- **Successful gas pipeline project requires:**
 - 4.5 BCFD initial gas sales with low cost expansions
 - Point Thomson gas available
 - Ownership equal to FT
 - Fiscal and tariff predictability
 - World-class project execution
 - **Agreement on the above will maximize value to State**
 - **EM committed to the development of Alaska's gas resources**
 - **EM ready to work with the State, TransCanada, ConocoPhillips, BP**
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ExxonMobi 6

Let me close with the key take-aways from my testimony today. A successful project will require alignment among the parties on the following:

- The pipeline should be built and flowed at an initial rate of 4.5 BCFD with the ability to add low-cost expansions.
- Point Thomson is critical to the pipeline. This gas should be made available to support commitments to the pipeline. The Point Thomson Initial Production System, which is currently underway, should be allowed to continue. The Point Thomson Plan of Development should be approved to remove any doubt on how best to produce the Thomson Sand. All 27 Point Thomson owners are committed to the plan and would like to resolve the current dispute with the State.
- Ownership equal to FT commitments, as well as fiscal and tariff predictability are necessary to achieve a commercially viable project.
- World-class project execution is essential. Expertise from all players is needed.

- Aligning on these important considerations will maximize value to the State.
- And finally and most importantly, we are committed to the development of Alaska's gas resources. We are ready to work with the State, TransCanada, ConocoPhillips and BP to develop a solution that ensures a successful project.

Thank you for the opportunity to speak with you today to address this important topic for the State of Alaska and our company. I look forward to addressing your questions.